ALLIANCE-MIDMED MEDICAL SCHEME

ALLIANCE-MIDMED MEDICAL SCHEME

Registration number 1465

Annual Board of Trustees Report
and
Audited Annual Financial Statements

for the year ended 31 December 2018

ALLIANCE-MIDMED MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2018

The reports and statements set out below comprise the annual financial statements presented to members:

ALLIANCE-MIDMED MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2018

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Trustees are responsible for the preparation, integrity, and fair presentation of the annual financial statements of Alliance-Midmed Medical Scheme ("the Scheme"). The annual financial statements presented on pages 10 to 28 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the Medical Schemes Act 131 of 1998, as amended and include amounts based on judgements and estimates.

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations and cash flows for the year and the financial position of the Scheme at year-end. The Trustees also prepared the additional information included in the Board of Trustees annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The Scheme operates in a well-established control environment, which is thoroughly documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the Scheme are being controlled. No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

The going concern basis has been adopted in preparing the annual financial statements. The Council for Medical Schemes announced in 2017 that it intends to consolidate smaller schemes into bigger risk pools in order to align with the longer-term funding objectives of the National Health Insurance Scheme. This initiative is, however, likely to face many challenges before it becomes reality and there is no indication that the Scheme will cease to exist in the short to medium term. Accordingly, the Trustees have no reason to believe that the Scheme will not be a going concern for the foreseeable future based on these annual financial statements, forecasts and available cash resources.

The Board has set strategic objectives and review the progress against the objectives on an annual basis. Part of this process is to review its risk policy and matrix and the Board met on 3 July 2017 and 22 October 2018 in this regard. The Board also review sections of the risk matrix at each meeting to ensure that the risk management process remains valid and current. The Board considers its risk policy and matrix to effectively address the risks, exposures and response. The Board, at its annual strategy meeting also considers compliance and whether the framework as specifically set out in the Audit, Risk and Compliance Committee mandate is valid and effective.

During the period under review the Board has not taken and is not aware of any undue risks that falls outside its tolerance levels and/ or that could lead to unexpected material loss.

The Scheme has not, during the period under review, been penalised, sanctioned or fined for regulatory contraventions or non-compliances.

During 2018 an independent audit, risk and compliance committee (previous audit committee) was appointed in the manner as prescribed in the Scheme's registered rules and constituted in accordance with the provisions of the Act. The Scheme appointed BDO as its external auditor, after a thorough evaluation process, following member's permission at the 2018 Annual General Meeting.

The appointment of the auditor took effect on 15 August 2018 once it was approved by the Registrar for Medical Schemes and the incumbent auditor did not vacate his/her office prior to the expiration of the period for which he/she was appointed.

The Scheme is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Scheme subscribes to the highest standards of governance, following relevant frameworks such as King IV wherever applicable. The Scheme's external auditors have audited the financial statements in terms of International Standards on Auditing and their report is presented on pages 7 - 10.

There was no requests for Scheme information under the Promotion of Access to Information Act.

The Board's philosophy is also to, in as far as it is practically and financially possible, to adhere to non-binding rules, codes and standards.

The Board meet regularly and monitor the performance of the Scheme and its service providers. They address a range of key issues and ensure that discussion of items of policy, strategy and performance is critical, informed and constructive.

Member Representative Trustees are elected every three years and comprise 50% of the Board. During 2018, elections were held, and new Board members appointed. Board members receive extensive training and all Trustees have access to the advice and services of the Principal Officer and, in compliance with Scheme policies, may seek independent, professional advice at the expense of the Scheme.

The Board adheres to a gifts policy and manage potential conflicts of interest through voluntary disclosures and periodic legal checks. Board members are also members of the Scheme. Their contributions and claims are reported and managed at arms-length as for members.

The Board holds an Annual General Meeting, fully compliant with the notification, agenda, content and disclosure requirements, in terms of its Rules and as specified by the Regulator.

The Board embarked on a compliance project to be compliant with the good governance requirements contained in the King III Report, and then the King IV report, by 2021 to 2023.

The annual financial statements were approved by the Board of Trustees on 24 April 2019 and are signed on its behalf by:

SJ Muller
Chairperson

FJ Mabhena
Trustee

JH Hartzenberg
Principal Officer

ALLIANCE-MIDMED MEDICAL SCHEME

Registration number: 1465

REPORT OF THE BOARD OF TRUSTEES

for the year ended 31 December 2018

1. DESCRIPTION OF THE MEDICAL SCHEME

1.1 Terms of registration

Alliance-Midmed Medical Scheme ("the Scheme") is a non-profit restricted membership medical scheme registered in terms of the Medical Schemes Act 131 of 1998, as amended ("the Act"). Its membership is restricted to employees who work for Columbus Stainless (Pty) Ltd and associate companies.

1.2 Benefit options within Alliance-Midmed Medical Scheme

The Scheme offers one benefit option.

1.3 Personal Medical Savings Account

The Scheme offers a 8% member savings account and pays for most of the benefits through the Major Risk Pool.

Unexpended savings amounts are accumulated for the benefit of the member and up to the 30th September 2017, interest accrued on balances at the effective average interest rate of the funds invested by the Trustees on member's behalf. Effective 1st October 2017, the Scheme rules where changed and interest no longer accrues to positive savings balances.

The liability to the members in respect of the Personal Medical Savings Account is reflected as a current liability in the annual financial statements, repayable in terms of Regulation 10 of the Act. Subsequent to the Constitutional Court judgement on personal medical savings accounts there is no longer a requirement to separately disclose the savings "assets". These now form part of the scheme assets.

In terms of the regulations of the Act and the rules of the Scheme, the Personal Medical Savings Account is underwritten by the Scheme.

2. MANAGEMENT

2.1 Board of Trustees in office during the year under review and at the date of this report:

FJ Mabhena	Trustee (Chairperson - resigned 15 August 2018)	Employer Representative Trustee
V Roach	Trustee - resigned 14 March 2018	Employer Representative Trustee
SD Muller	Trustee (Chairperson - from 15 August 2018)	Member Elected Trustee
C Kritzinger	Trustee	Member Elected Trustee
M Otto	Trustee - resigned 31 December 2018	Employer Representative Trustee
G Le Roux	Trustee - resigned 29 June 2018	Member Elected Trustee
R van Coller	Trustee - appointed 1 July 2018	Employer Representative Trustee
D Martin	Trustee - elected 1 July 2018	Member Elected Trustee

The trustees took office in July 2018. Three trustees are appointed and three trustees are elected. Three co-opted observers are invited to attend the Board of Trustee meetings in order to provide continuity when trustees resign.

Board elections are performed according to the Scheme policy, with the objective to have a knowledgeable and representative Board that acts in the best interest of the Scheme and all its beneficiaries. First there is a call for nominations, whereafter the nominee's acceptance is obtained, checks are done to confirm that they meet the legal requirements. An open election and fomal appointment follows, whereafter the appointed Trustees are provided with extensive training and tools to perform the task at hand.

As the Scheme is a restricted scheme, all trustees are members of the Scheme and are therefore not independent. Trustees perform a regular self assessment where training needs are identified.

Two Trustees resigned and two new Trustees were appointed during this period.

The Trustees are not remunerated for their services by the Scheme.

2.2 Principal Officer

JH Hartzenberg
Postnet Suite MW60
Private Bag X1838
Middelburg
1050

2.3 Registered office address and postal address:

Private Health Administrators (Pty) Limited.
3rd Floor
Pharos House
70 Buckingham Terrace
Westville
3629

P.O. Box 343
Westville
3630

2. MANAGEMENT (continued)

2.4 Scheme Administrator

The Scheme is administered by Private Health Administrators (Pty) Limited ("PHA").

2.5 Consultants

Dr C De Nobrega and Dr R Odes performed the duties of Scheme Medical Advisor.

2.6 Bankers

First National Bank

2.7 Independant Auditors

BDO South Africa Incorporated
Wanderers Office Park
52 Corlett Drive
Illovo
2196

Private Bag X60500
Houghton
2041

2.8 Investment managers during the year

Old Mutual Wealth
No1 Mutual Place
107 Rivonia Road
Sandton
2196
Financial Service Provider Number 588

Prudential Portfolio Managers (SA) (Pty) Ltd
P.O. Box 23167
Claremont
7735
Financial Service Provider Number 615

Coronation Asset Management (Pty) Ltd
7th Floor, Mont Clare Place
Cnr Campground & Main Roads
Claremont
Cape Town
7708
Financial Service Provider Number 548

Allan Gray
1 Silo Square
V & A Waterfront
Cape Town
8001

Stanlib Collective Investments
17 Melrose Boulevard
Melrose Arch
2196

3. INVESTMENT POLICY OF THE SCHEME

The Scheme's long term investment objective is to maximize the return on its investments while exercising prudence. The investment strategy takes into consideration constraints imposed by the Act.

4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

4.1 Operational statistics

Refer to page 6 of this report for a comparative analysis of the operational statistics of the Scheme.

4.2 Results of operations

The results of the Scheme are set out in the annual financial statements, and the Board of Trustees believe that no further clarification is required.

The continued focus of the Board was to implement a robust governance model and further enhance the Scheme's health, legal and financial risk management. As set out in the annual financial statements (AFS), the Scheme has generated a net deficit for the year of R3 120 794 (2017: R614 546 surplus). The Scheme's solvency ratio of 37.89% remains well above the solvency level as required by the Act and the slight reduction was contained by the boards interventions. (Note that the average accumulated funds (excluding savings) per member at end 2018 of R25 804 was marginally down from the R26 429 at the end of 2017.) We expect these interventions to render a significant benefit in the coming years, both in terms of cost and quality of care. The Scheme is not experiencing cash flow problems.

4. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES (continued)

4.3 Accumulated funds

	2018 R	2017 R
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per statement of financial position	45 905 029	49 025 823
Less: Cumulative net gains on remeasurement to fair value of investments	(8 525 881)	(11 062 725)
Accumulated funds per Regulation 29 of the Act	37 379 148	37 963 098
Gross contributions (Note 8)	98 639 318	94 567 622
Accumulated funds ratio = Accumulated funds/Gross annual contribution income x 100%	37.89%	40.14%

4.4 Members' funds

Movements in the reserves are set out in the Statement of Changes in Funds and Reserves. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

4.5 Outstanding claims

Movements in the outstanding claims provision are set out in Note 8 to the annual financial statements. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

5. INVESTMENTS IN AND LOANS TO EMPLOYERS OF MEMBERS OF THE SCHEME AND OTHER RELATED PARTIES

The Scheme holds no investments in participating employers or related parties of Scheme members.

6. SUBSEQUENT EVENTS

No events have occurred subsequent to the end of the reporting period that affect the annual financial statements and that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

7. AUDIT, RISK AND COMPLIANCE COMMITTEE

An Audit, Risk and Compliance Committee was established in accordance with provisions of the Act. The Audit, Risk and Compliance Committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The Audit, Risk and Compliance Committee consists of five members of which two are members of the Board of Trustees. The chairperson and two other members are independent as they are not officers of the Scheme or its third party administrator. The Audit, Risk and Compliance Committee met on four occasions during the course of the year as follows:

14 March 2018
13 June 2018
20 September 2018
28 November 2018

The Chairman of the Scheme, the Principal Officer, the financial manager of the administrator, the internal auditor and the external auditor are invited to attend Audit, Risk and Compliance Committee meetings and have unrestricted access to the Chairman of the Audit, Risk and Compliance Committee.

In accordance with the provisions of the Act, the primary responsibility of the Audit, Risk and Compliance Committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. The independent external and internal auditor formally reports to the Audit, Risk and Compliance Committee on critical findings arising from their audit activities. The Audit, Risk and Compliance Committee also ensures that significant matters are identified and appropriately dealt with.

The Audit, Risk and Compliance Committee comprises: trustee members SD Muller (resigned 30 June 2018), M Otto (appointed 1 July 2018 and resigned 31 December 2018) and C Kritzinger, and non-trustee members K Bizana and D Van Der Merwe, under the chairmanship of non-trustee member JP Van Der Walt. On 1 February 2019 M van Rensburg was appointed as a trustee member.

8. COMPLIANCE MATTERS

DEVIATIONS:

The Board of Trustees are of the opinion that there are no material deviations from the Act and list the following three matters that are practical challenges and not wilful non-compliances.

Not all contributions that are billed are received within 3 days as required by the Act. There are however sufficient credit control policies to minimise the risk of non-recoverability. This risk is further reduced by the fact that the Scheme is a restricted scheme with the majority of members having a direct link to the employer pay points.

Claims are generally paid within 30 days of receipt but due to certain procedures such as clinical auditing, there are exceptions where claims are only paid after 30 days of receipt. On average 97.10% of claims are paid within 30 days.

Section 35(8) (c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme's investment funds are managed by independent third party asset managers. They have a discretionary mandate to achieve their target. Given this approach, the Scheme may be exposed to shares in an administrator from time to time. As a precuation the Scheme made application and was granted exemption from complying with this requirement by the Council for Medical Schemes. Our application was submitted on 11 April 2018 (2017: 15 March 2017) for which exemption was granted until 30 April 2019 (2017: 5 April 2018). On the S35(8)(c) non-compliance the scheme had investments in MMI (AG and Stanlib) and Liberty (Stanlib) at year-end which is what constitutes the non-compliance.

9. KEY MATTERS

The Board of Trustees have identified the following as key matters:

Solvency:

The solvency of the Scheme remains above the regulated minimum indicating that the Scheme is in a sound financial position.

Management Of Claims:

Although claims incurred during the year exceeded the budget they remained within manageable levels. Active health, legal and financial risk management resulted in robust containment of the financial impact. The application of these initiatives will continue to present an affordable option to members in the medium to longer term.

Profile Of Members:

The member profile has a significant impact on future claims. As can be seen in note 11 of the Report of the Board of Trustees, membership decreased during 2018 with membership at 31 December 2018 of 1 748 being 6.1% down (2017: 1.4% up) on the membership at 31 December 2017 of 1 855. It is relevant to note that the average age of beneficiaries at 31 December 2018 is 32.76; 1.52 years older than the average age of beneficiaries at 31 December 2017 which was 31.24. This indicated younger beneficiaries have left the Scheme. This was due to union activity and does not present a sustainability risk. Nevertheless, claims are closely monitored to contain risks.

Governance:

The Board is committed to strong governance structures to ensure appropriate and professional management. The Board of Trustees embarked on the implementation of a robust governance model. The governance model has already strengthened a number of management practices and we expect this project to be completed in 2023, because it includes compliance to relevant aspects of King III and King IV. Underpinning the governance model and structures are stringent internal and external audit processes.

Risk Management:

A robust risk management approach is applied operationally at clinical, financial and investment management levels. The Board of Trustees is constantly seeking ways to enhance risk identification and management.

Impact on the environment:

The Board is continuously looking for ways to further improve its impact on the environment. The Scheme has effective and efficient systems and processes to minimise its negative impact on the environment (e.g. email communications and a member app to communicate and submit accounts in real time electronically) and that it is working on reducing negative impacts where these are discovered (e.g. a campaign to register providers on the administrator electronic platform for account reconciliation).

10. TRUSTEES AND AUDIT, RISK AND COMPLIANCE COMMITTEE MEMBERS MEETING ATTENDANCE

	Board of Trustees meetings		Audit, Risk and Compliance Committee meetings		Annual general meetings	
	A	B	A	B	A	B
Trustees						
FJ Mabhena (Chairperson until 15 August 2018)	7	7	2	2	1	1
V Roach (Resigned 30 March 2018)	3	3				
SD Muller # (Elected Chairperson on 15 August 2018 and resigned from the Audit, Risk and Compliance Committee)	7	7	4	4	1	1
G Le Roux (Resigned 30 June 2018)	4	2			1	1
C Kritzinger #	7	7	4	4	1	0
M Otto # (appointed as Audit, Risk and Compliance Committee Member on 1 July 2018 and resigned 31 December 2018)	7	6	4	3	1	1
R van Coller (Co-Opted Trustee until 30 June 2018. Appointed as Trustee - 1 July 2018)	7	7			1	1
D Martin (Appointed as Trustee - 1 July 2018)	3	3				
H Fourie (Appointed as Co-Opted Trustee on 1 July 2018)	3	2				
N Harris (Co-Opted Trustee)	7	5			1	0
J Tharakan (Co-Opted Trustee)	7	7			1	1
Audit, Risk and Compliance Committee members						
J Van Der Walt (Chairman)	6	6	4	4	1	1
D Van Der Merwe			4	4	1	0
K Bizana			4	4	1	0
Principal Officer						
J Hartzenberg	7	7	4	4	1	1

- Trustees serving on the Audit, Risk and Compliance Committee
4 Board Meetings, 3 Special Board Meetings (1 Strategy Session and Budget Meeting not counted)
A = maximum possible attendance
B = actual attendance

11. REVIEW OF THE ACCOUNTING PERIOD'S ACTIVITIES

Operational statistics

	2018	2017
Number of members at the end of the year	1 748	1 855
Number of beneficiaries at the end of the year	4 150	4 413
Average number of members for the year	1 779	1 847
Average number of beneficiaries for the year	4 206	4 421
Beneficiaries per member at the end of the year	2.37	2.38
Average age of beneficiaries for the year	32.76	31.24
Pensioner ratio (beneficiaries > 65 years)	7.08%	6.03%
Dependants per member at the end of the accounting period	1.37	1.38
Average net contributions per beneficiary per month	R1 799	R1 641
Average relevant healthcare expenditure incurred per beneficiary per month	R1 811	R1 614
Total relevant healthcare expenditure as a percentage of gross contributions	92.66%	90.52%
Average non-healthcare expenditure per beneficiary per month	R110	R113
Non-healthcare expenses as a percentage of gross contributions	5.65%	6.33%
Average accumulated funds(excl savings) per member at the end of the year	R25 804	R26 429
Return on investments as a percentage of closing investments	3.77%	8.20%

Breakdown of total amount paid to the Administrator:	R	R
Administration fees	R 4 015 255	R 3 918 900
Managed care: management services	R 937 678	R 895 346
Total	R 4 952 933	R 4 814 246
Average amount paid to the Administrator per member per month	R 232	R 217

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Private Bag X60500
Houghton, 2041
South Africa

Independent Auditor's Report

To the members of the Alliance-Midmed Medical Scheme

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Alliance Midmed Medical Scheme ("the Scheme") set out on pages 11 to 28, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in funds and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial statements present fairly, in all material respects the financial position of Alliance-Midmed Medical Scheme as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the scheme in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Scheme for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those financial statements on 18 April 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

BDO South Africa Incorporated
Registration number: 1995/002310/21
Practice number: 905526
VAT number: 4910148685

1. Incurred but Not Received (IBNR) Provision	
Key Audit Matter	***Audit Response***
Refer also to Note 7 (page 19) **The IBNR provision is considered to be significant to our audit and therefore is considered to be a key audit matter as the balance is material to the financial statements as a whole and is subject to a degree of estimation uncertainty and judgement from management.** **In accordance with the scheme rules, members have 4 months from the service date to submit claims before they are considered stale and rejected.** **At the time of approval of the financial statements, 3 months of the 4 months are known and historically the majority of the claims are received in the first 3 months after year-end.** **The method used to estimate outstanding claims uses historical claims development information and assumes that the historical claims development pattern will occur again in the future. There is no certainty whether similar patterns will re-occur which could result in a material misstatement in the IBNR provision.**	The following audit procedures were performed, amongst others: • We addressed the appropriateness and timely recognition of costs and provisions in accordance with *IAS 37: Provisions, Contingent Liabilities and Contingent Assets* and *IFRS 4: Insurance Contracts*; • We assessed the claims received subsequent to year-end for claims incurred relating to the 2018 financial year. • We scrutinised the hospital pre-authorisation lists and the confirmation from the hospitals of claims incurred to the end of December 2018. • We critically assessed management's assumptions compared to our own institutional knowledge. • We assessed the calculation of run-off triangles for reasonability compared to the current and historical claims development patterns over the last 3 year. • We assessed and recomputed the sensitivity analyses for accuracy. • We evaluated the presentation and disclosure of the IBNR provision in terms of IFRS and the applicable industry guides.

2. Automated and complex information technology system	
Key Audit Matter	***Audit Response***
The Scheme's Information Technology system - HIP is considered to be complex as it performs a high degree of automated processing with many application controls and contains many electronic transactions generated from service providers with very little observable external audit trial. **Should an error occur there could potentially be a significant impact on the financial data that is provided to the scheme or alternatively if the automated controls were to fail it could potentially result in significant financial loss to the scheme.** **There is therefore a significant risk of material misstatement and as a result the system's reliability and functioning of the automated controls are considered to be a key audit matter.**	The following audit procedures were performed, amongst others: • We assessed the administrator's Internal Audit department for suitability, competence and independence. • We had discussions with internal audit on the work they performed, their quality control procedures and any relevant risks requiring further attention. • We reviewed Internal Audit working papers and reports relating to work performed on the information systems and the general control environment. • We reviewed the comprehensive report performed on the internal controls and IT controls at the administrator by the administrator's auditor. • We assessed the administrator's auditor for competence and independence to ensure that the report can be relied on. • Our information technology (IT) assurance team performed a review of the general IT control environment of the administrator and also performed a quality control review of the internal audit and the administrator's auditors work performed.

	• We performed exception testing on the transactional claims and contributions database by identifying anomalies in the transactional data and confirming the validity thereof. • For weaknesses identified in the review by IT assurance and internal audit we adjusted our audit approach and performed additional work.

Other Information

The Board of Trustees are responsible for the other information. The other information comprises the Board of Trustees Report as required by the Medical Schemes Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Trustees' for the Financial Statements

The Board of Trustees are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act of South Africa, and for such internal control as the Trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Trustees are responsible for assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.

- Conclude on the appropriateness of the Board of Trustees' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Trustees regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Board of Trustees, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Non-compliance with the Medical Schemes Act of South Africa

As required by the Council for Medical Schemes, we report that we did not identify any material instances of non-compliance with the requirements of the Medical Schemes Act of South Africa.

Audit Tenure

In terms of Circular 38 of 2018 *Audit tenure*, we report that BDO South Africa Incorporated has been the auditor of Alliance-Midmed Medical Scheme for 1 year.

The engagement partner, Mr D Botha, has been responsible for the Alliance-Midmed Medical Scheme audit for 1 year.

BDO South Africa Inc.

BDO South Africa Incorporated
Director: D Botha
Registered Auditor

26 April 2019

Wanderers Office Park, 52 Corlett Drive, Illovo, 2196

ALLIANCE-MIDMED MEDICAL SCHEME

STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Notes	2018 R	2017 R
ASSETS			
Current assets		84 303 621	84 708 069
Trade and other receivables	2	1 063 643	772 559
Cash and cash equivalents	3	22 921 556	44 111 539
Investments held at fair value through profit and loss	4	60 318 422	39 823 971
Total assets		84 303 621	84 708 069
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		45 905 029	49 025 823
Current liabilities		38 398 592	35 682 246
Personal Medical Savings Account liability	5	32 185 155	31 324 906
Trade and other payables	6	3 579 001	2 350 889
Outstanding claims provision	7	2 634 436	2 006 451
Total funds and liabilities		84 303 621	84 708 069

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 R	2017 R
Net contribution income	8	90 821 465	87 064 670
Relevant healthcare expenditure		(91 398 443)	(85 604 890)
Net claims incurred	9	(89 685 654)	(83 938 576)
Claims incurred		(89 886 801)	(83 945 614)
Third party claim recoveries		201 147	7 038
Accredited managed healthcare services (no transfer of risk)	10	(1 712 789)	(1 666 314)
Gross healthcare result		(576 978)	1 459 780
Administration expenses	11	(5 496 660)	(5 621 283)
Net impairment losses on healthcare receivables	12	(74 973)	(3 225)
Net healthcare result		(6 148 611)	(4 164 728)
Other income		3 418 310	6 880 153
Investment income	13	3 136 442	6 880 153
Sundry income		281 868	-
Other expenditure		(390 493)	(2 100 878)
Interest paid on Personal Medical Savings Account	14	-	(1 691 922)
Asset management fees		(390 493)	(408 956)
Net (deficit)/surplus for the year		(3 120 794)	614 546
Total comprehensive (loss)/income for the year		(3 120 794)	614 546

STATEMENT OF CHANGES IN FUNDS AND RESERVES
for the year ended 31 December 2018

	2018 R	2017 R
Balance as at 1 January	49 025 823	48 411 277
Total comprehensive (loss)/income for the year	(3 120 794)	614 546
Balance as at 31 December	45 905 029	49 025 823

ALLIANCE-MIDMED MEDICAL SCHEME

STATEMENT OF CASH FLOWS
for the year ended 31 December 2018

	Notes	2018 R	2017 R
Cash flows from operating activities			
Cash flows utilised in operations before working capital changes	15	(3 937 854)	(4 113 927)
Working capital changes			
- (Increase) / decerease in trade and other receivables		(366 057)	843 586
- Increase / (decrease) in trade and other payables		1 228 112	(623 816)
- Increase in personal medical savings account liability		860 249	3 167 594
- Increase in outstanding claims provision		627 985	226 655
Cash utilised in operations		(1 587 565)	(499 908)
Interest paid on personal medical savings account	14	-	(1 691 922)
Net cash flow utilised in operating activities		(1 587 565)	(2 191 830)
Cash flow from investing activities		(19 602 418)	2 904 348
Acquisition of investments		(40 863 429)	(945 968)
Proceeds on disposal of investments		17 832 134	207 605
Interest income		3 444 056	1 465 152
Return on members' personal savings balance account monies (refer to note 3 & 5)		-	2 301 231
Dividend income		375 314	285 284
Asset management fees		(390 493)	(408 956)
Net (decrease)/increase in cash and cash equivalents		(21 189 983)	712 518
Cash and cash equivalents at the beginning of the year		44 111 539	15 331 245
Personal medical savings account assets at the beginning of the year (refer to note 3 & 5)		-	28 067 776
Cash and cash equivalents at the end of the year	3	22 921 556	44 111 539

1. PRINCIPAL ACCOUNTING POLICIES

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the disclosures as required by the Medical Schemes Act 131 of 1998, as amended ("the Act"). The following are the principal accounting policies used by the Scheme, which are consistent with those of the previous year.

1.1 Basis of preparation

The annual financial statements are prepared in accordance with IFRS on the historical cost basis except for short-term investments and investments classified as held at fair value through profit and loss, which are carried at fair value.

1.2 Financial instruments

Financial assets and liabilities are recognised on the Scheme's statement of financial position when it becomes a party to the contractual provisions of the instrument.

Measurement

Financial instruments are initially measured at cost. Subsequent to initial recognition, these instruments are measured as set out below.

The carrying value of short-term financial assets and liabilities approximates fair value.

Trade and other receivables

Trade and other receivables originated by the Scheme are stated at cost less an appropriate allowance for estimated irrecoverable amounts. This is recognised through the statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents are measured at fair value and comprise the current bank accounts, deposits held on call with banks, and other short-term liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value, and held in terms of Annexure B of the Act.

Investments held at fair value through profit and loss

All purchases and sales of investments are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset. The cost of purchases includes transaction costs. Investments held at fair value through the statement of comprehensive income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the investments are included in the statement of comprehensive income in the year in which they arise. The fair value of financial instruments is determined by reference to published indices on the Bond Exchange of South Africa and the Johannesburg Securities Exchange ("JSE") Limited, and held in terms of Annexure B of the Act.

On disposal of an investment, the difference between the net disposal proceeds and carrying amount is recognised in the surplus or deficit for the year.

Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations.

Impairment

Impairments of financial instruments are recognised through the statement of profit or loss and other comprehensive income in the year in which the impairment arose.

1.3 Impairment

The carrying amount of the Scheme's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an allowance account to record impairment losses is created.

An impairment loss is recognised whenever the carrying amount of an asset or it's cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

The recoverable amount of assets held at amortised cost is calculated as the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition of the financial asset. Receivables due within the same operating cycle are not discounted.

1.4 Personal Medical Savings Account liability

The Personal Medical Savings Account assists members to manage cash flows for costs in excess of the Scheme's approved benefits and self funding member co-payments for provider services rendered.

Personal Medical Savings Account contributions are advanced annually. Unexpended savings at the year-end are carried forward to meet future expenses in excess of Scheme benefits. Balances standing to the credit of members are refundable in terms of regulation 10 of the Medical Schemes Act 131 of 1998. as amended.

The Scheme bears the risk associated with the non-recovery of balances which have been advanced to members and who have subsequently left the Scheme without settling those outstanding balances.

In accordance with a change in the Scheme rules effective 1 October 2017, interest no longer accrues to member accounts.

In accordance with the Rules of the Scheme, the Personal Medical Savings Account is underwritten by the Scheme.

1.5 Provision for outstanding claims (IBNR)

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date, but have not been reported to the Scheme by that date. This provision is determined according to, amongst others, previous claims experience, claims settlement patterns, membership changes, claims frequency changes, claims processing cycles and variations in the nature of, and average claims costs. The outstanding claims provision is reduced by the estimated recoveries from members for co-payments, and Personal Medical Savings Accounts.

1.6 Investment income

Interest is recognised on a time proportion basis, taking account of the principal balance outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme.

Dividends are recognised when the Scheme's right to receive payment is established.

1.7 Contribution income

Net contributions are received monthly in arrears. Net contributions represent gross contributions after deduction of Personal Medical Savings Account contributions. The earned portion of net contributions received is recognised as revenue on the accrual basis. Net contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

1.8 Claims

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Scheme is responsible, whether or not reported by the end of year.

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and Personal Medical Savings Accounts;
- claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments, and Personal Medical Savings Accounts and
- movement in the provision for outstanding claims.

1.9 Medical insurance contracts and liability adequacy test

Contracts under which the Scheme accepts membership and medical insurance risk for the member and his or her dependants, by agreeing to defray expenses in accordance with the Scheme Rules, are classified as medical insurance contracts.

The liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the Scheme recognises the deficiency in income for the year.

1.10 Standards and interpretations effective in the current year

With the exception of IFRS 9, the Scheme adopted all applicable new and revised accounting standards and interpretations that became effective for annual periods beginning on or after 1 January 2018 relevant to the Scheme, as indicated below:

- Amendments to IAS 7: Disclosure Initiative
- IFRS 15 - Revenue from contracts with customers

The amendments did not have a significant impact on the Scheme.
IFRS 15 does not apply to insurance income

IFRS 9 Scheme Impact Analysis

IFRS 4 allows for a temporary exemption to defer the adoption until 1 January 2021. This exemption may be applied if:
- the Scheme has not previously applied any version of IFRS 9; and
- its activities are predominantly connected with insurance.

A scheme's activities are predominantly connected with insurance if, and only if:
- the carrying amount of its liabilities arising from members' contracts, which includes any deposit components (i.e. the medical savings account liability), is significant compared to the total carrying amount of all its liabilities; and
- the percentage of the total carrying amount of its liabilities connected with insurance relative to the total carrying amount of all its liabilities is:
  - greater than 90 per cent; or
  - less than or equal to 90 per cent but greater than 80 per cent, and the scheme does not engage in a significant activity unconnected with insurance.

	31 Dec 2015	31 Dec 2018
Savings plan liability	25 336 636	32 185 155
Credit balances due to members & suppliers	1 209 955	2 417 563
Provision for outstanding claims	1 221 965	2 634 436
	27 768 556	37 237 154
Total liabilities	29 111 395	38 398 592
IFRS 4 %	95%	97%

The Trustees are satisfied that the Scheme meets the requirements and have therefore elected to defer the adoption of IFRS 9 and will review the decision annually.

IFRS 9 introduces a single "expected credit loss" model for impairment, a new hedge accounting model and a new approach to classification of financial assets.

Investments are measured at fair value through profit or loss, and would be continued to be held at fair value through profit or loss, under IFRS 9. For the remainder of the financial assets the carrying value approximates fair value. Receivables will be elected to the expected loss impairment model and not he incurred loss impairment model currently applied. Given the short term nature of the receivables, it is unlikely to result in a material financial provision.

1.11 IFRS standards and interpretations not yet effective

Standards and interpretations not yet effective

The following new and revised accounting standards and interpretations, which are relevant to medical schemes are in issue, but not yet effective. None of the applicable standards below have been early adopted by the Scheme.

Standard	Effective date*
Amendments to IFRS 16 - Leases	01-Jan-19
Amendments to IFRS 17 - Insurance contracts	01-Jan-21

* Annual periods commencing on or after

The Scheme does not have any operating lease expenses and therefore IFRS 16 will not have an effect on the financial statements of the scheme.
These standards will be adopted on their effective dates.

2. TRADE AND OTHER RECEIVABLES

	2018 R	2017 R
Net contributions outstanding	996 300	709 130
Amounts owing by members	45 745	12 609
Amounts owing by suppliers	62 738	24 498
Personal Medical Savings Account advances (note 5)	46 518	45 394
	1 151 301	791 631
Less: Provision for impairment of trade and other receivables	(107 420)	(37 560)
	1 043 881	754 071
Prepaid expenses	16 140	16 000
Accrued interest	3 622	2 488
	1 063 643	772 559

The movement in the allowance for impairment during the year was as follows:

	Contribution debt	Member and supplier debt	Savings account advances	Total
2018	R	R	R	R
Balance as at 1 January	-	(14 213)	(23 347)	(37 560)
Amounts written off during the year	-	-	5 114	5 114
Amount recognised in the statement of comprehensive income for the year (note 12)	-	(68 356)	(6 617)	(74 973)
Unused amounts reversed during the year	-	-	-	-
Amounts utilised during the year	-	(68 356)	(6 617)	(74 973)
Balance as at 31 December	-	(82 570)	(24 850)	(107 420)
2017				
Balance as at 1 January	-	(49 823)	(29 453)	(79 276)
Amounts written off during the year	-	31 167	13 774	44 941
Amount recognised in the statement of comprehensive income for the year (note 12)	-	4 443	(7 668)	(3 225)
Unused amounts reversed during the year	-	4 443	-	4 443
Amounts utilised during the year	-	-	(7 668)	(7 668)
Balance as at 31 December	-	(14 213)	(23 347)	(37 560)

3. CASH AND CASH EQUIVALENTS

	2018 R	2017 R
Current accounts	400 788	409 801
Deposits on call	11 847 778	16 036 398
Fixed Term Deposits	10 672 990	27 665 340
	22 921 556	44 111 539

The overall weighted average effective interest rate on cash resources at year end was 6.81% (2017: 7.14%).

The South African Constitutional Court judgment on 6 June 2017 found that Personal Medical Savings Account (PMSA) funds enter a scheme's bank account without being impressed by a trust or fiduciary relationship. Once paid into a scheme's bank account, the funds become assets of the scheme, regardless of whether a proportion is later allocated by the scheme to a PMSA. Consequently there is no distinction between scheme and PMSA assets and all assets must be invested in accordance with the Medical Schemes Act and Regulations. There is no statutory requirement for assets arising from any unspent PMSA allocation to be invested separately and as such are now included in cash and cash equivalents.

	2018 R	2017 R
4. INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS		
Fair value at the beginning of the year	39 823 971	36 304 698
Additions and income capitalised	40 863 429	945 969
Disposals	(17 832 134)	(207 605)
Net unrealised (loss)/gain on revaluation recognised through the statement of comprehensive income	(2 536 844)	2 780 909
Fair value at the end of the year	60 318 422	39 823 971
The investments included above represent:		
Cash and equivalents	9 362 330	6 868 385
Bonds	30 748 583	14 015 844
Equities	14 958 902	14 869 084
Property unit trusts	5 248 607	3 882 287
Other	-	188 371
Fair value at the end of the year	60 318 422	39 823 971
5. PERSONAL MEDICAL SAVINGS ACCOUNT		
Balance on Personal Medical Savings Account at beginning of the year	31 324 906	28 157 312
Less: Prior year advances on Personal Medical Savings Account	(45 394)	(42 001)
Net balance on Personal Medical Savings Account at the beginning of the year	31 279 512	28 115 311
Personal Medical Savings Account contributions received	7 863 247	7 544 953
- for the current year (note 8)	7 817 853	7 502 952
- allocated to settle prior year advances	45 394	42 001
Interest paid on Personal Medical Savings Account balances (note 14)	-	1 691 922
Less:		
Transfers to other Schemes and repayments on death or resignation	(3 292 213)	(2 284 195)
Claims paid on behalf of members (note 9)	(3 711 909)	(3 788 479)
Net balance on Personal Medical Savings Account liability at the end of the year	32 138 637	31 279 512
Add: Advances on Personal Medical Savings Account included in trade and other receivables (note 2)	46 518	45 394
Amounts due to members on Personal Medical Savings Account at the end of the year	32 185 155	31 324 906

The Personal Medical Savings Account liability contains a demand feature in terms of regulation 10 of the Medical Schemes Act that any credit on a member's Personal Medical Savings Account must be taken as a cash benefit when the member terminates his or her membership of the Scheme or benefit option and then enrols in another benefit option or medical scheme without a Personal Medical Savings Account or does not enrol in another medical scheme.

Interest accrued to the Personal Medical Savings Accounts monthly, based on the effective interest method, up until 30 September 2017.

It is estimated that claims to be paid out of members' Personal Medical Savings Accounts in respect of claims incurred in 2018 but not recorded amount to R91 098 (2017: R66 348).

Advances on Personal Medical Savings Accounts are funded by the Scheme and are included in trade and other receivables. The Scheme does not charge interest on advances on Personal Medical Savings Accounts.

6. TRADE AND OTHER PAYABLES		
Credit balances in trade and other receivables	2 417 563	1 784 379
Sundry accounts payable	471 146	395 192
Contributions received in advance and unallocated receipts	690 292	171 318
	3 579 001	2 350 889
7. OUTSTANDING CLAIMS PROVISION		
Provision for outstanding claims	2 634 436	2 006 451
Analysis of movements in outstanding claims		
Balance at beginning of year	2 006 451	1 779 796
Payments in respect of prior year	(1 482 527)	(1 394 171)
Over provision in prior year	523 924	385 625
Raised in the current year	2 110 512	1 620 826
Balance at end of year	2 634 436	2 006 451

	2018 R	2017 R
7. OUTSTANDING CLAIMS PROVISION (continued)		
Analysis of outstanding claims provision		
Estimated gross claims	2 725 534	2 072 799
Less: Estimated recoveries from Personal Medical Savings Accounts	(91 098)	(66 348)
Balance at end of year	2 634 436	2 006 451

Basis for determination of the outstanding claims provision

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the reporting date but have not been reported to the Scheme by that date. The provision is determined based on a number of assumptions which are outlined below.

Process used to determine the assumptions

The process used to determine the assumptions is intended to result in a realistic estimate of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies of historical claiming patterns to establish a claims run-off period per discipline. More emphasis is placed on recent information, particularly where current claims do not appear to follow prior year trends. Where, in prior years, there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

To the extent that historical claims development is used to determine the claim run-off period, it is assumed that this pattern will occur again in future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons, inter alia, include:

- changes in processes that affect the development or recording of claims paid and incurred (such as changes in claims submission mechanisms);
- changes in membership profile of the Scheme;
- random fluctuations; and
- legislative changes (for example, expansion of the definition of a Prescribed Minimum Benefit (PMB)/Chronic Disease Listing (CDL) condition).

Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the claims "run-off periods" for the most recent benefit years (split by discipline). The run-off factor relates to the emergence and settlement patterns of claims and is expressed as the percentage of claims settled in respect of total claims expected to emerge in a specific service month. This factor is then used to project the remainder of the outstanding claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past claims experience. These assumptions have been used for assessing the outstanding claims provisions for the 2017 and 2018 benefit years.

Calculation of the outstanding claims provision at year end

Since claims data is available for three months after year-end for services provided up until the reporting date, considering that members have a four month period to submit their claims to the Scheme, the unknown portion of the outstanding claims provision is expected to be relatively small.

Outstanding claims provision (not covered by risk transfer arrangements)	2 634 436	2 006 451
Portion of outstanding claims paid in first two months of 2019/2018	2 251 339	1 389 069
Residual estimate of claims incurred but not paid	383 097	617 382
Percentage of claims paid of total outstanding claims	85.5%	69.2%

Changes in assumptions

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables. Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the estimation process. The Trustees believe that the liability for claims reported in the statement of financial position is adequate. However, they recognise that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. The sensitivity of the liability is limited as it comprises 85.5% (2017: 69.2%) of actual payments made in January and February 2019 which relate to 2018 claims. Therefore, the remaining balance has variables considered to be immaterial and no impact has been assessed for insignificant changes to these variables. Consequently, if for example the estimates of the unreceived portion of claims costs for the year was 5% inaccurate, the impact on the net surplus of the Scheme would be as follows:

Impact on reported profits due to changes in key variables of the claims provision

	Change in variable	Change in liability 2018 R	Change in liability 2017 R
Hospital (Major medical benefit)	5%	10 441	16 450
Chronic	5%	246	376
Day-to-day	5%	8 468	14 043

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant. Inflation is not a factor as retrospective inflation is known.

	2018 R	2017 R
8. NET CONTRIBUTION INCOME		
Gross contributions	98 639 318	94 567 622
Less: Savings contributions (note 5)	(7 817 853)	(7 502 952)
	90 821 465	87 064 670
9. NET CLAIMS INCURRED		
Current year claims (note 19)	91 287 050	86 106 229
Movement in outstanding claims provision	2 110 512	1 620 826
- Over provision in prior year (note 7)	(523 924)	(385 625)
- Current year provision	2 634 436	2 006 451
Less:		
- Claims paid from Personal Medical Savings Account (note 5)	(3 711 909)	(3 788 479)
	89 685 654	83 938 576
10. ACCREDITED MANAGED HEALTHCARE SERVICES (no transfer of risk)		
Private Health Administrators (Pty) Ltd	937 678	895 346
Mediscor PBM (Pty) Ltd	527 990	524 864
Dental Information Systems (Pty) Ltd	247 121	246 104
	1 712 789	1 666 314

Private Health Administrators (Pty) Ltd - Administrators contracted to the Scheme to provide managed care services.

Mediscor PBM (Pty) Ltd ("Mediscor") - service provider contracted to provide a pharmacy benefit management programme and chronic benefit programme to the Scheme.

Dental Information Systems (Pty) Ltd ("Denis") - service provider contracted to provide a dental benefit management programme to the Scheme.

11. ADMINISTRATION EXPENSES		
Reimbursement of Trustee expenditure (refer table below)	-	-
Administrator's fees	4 015 255	3 918 900
Audit fees	189 491	192 309
Consultants fees	375 447	362 445
Fidelity guarantee and professional indemnity insurance premium	16 000	20 000
Registrar's levies	76 206	68 493
PO Remuneration	10 894	-
- Paid by Scheme	392 384	364 720
- Employer group funding of remuneration #	(381 491)	(364 720)
Legal fees	-	17 864
Travel expenses	35 729	67 864
Member Communication	5 877	7 088
Europ Assistance	88 675	85 368
Other expenses	683 087	880 951
	5 496 660	5 621 283

The recovery of the PO salary from the employer group has been reclasified in the comparative period to facilitate better comparison with the current year.

REIMBURSEMENT OF TRUSTEE EXPENDITURE	Accommodation and travel R	Total R
31 December 2018		
Nil	-	-
31 December 2017		
Nil	-	-

Expenditure incurred on behalf of Trustees is paid directly to the service provider and not the individual.

	2018 R	2017 R
12. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES		
Increase in provision for impairment on receivables	74 973	3 225
13. INVESTMENT INCOME		
Interest income earned on cash and cash equivalents	2 449 705	852 691
Return on members' personal savings balance account monies	-	2 301 231
Investments held at fair value through profit and loss		
-Interest income	994 351	612 461
-Dividend income	375 314	285 284
-Net (loss)/gain on investments held at fair value through profit and loss	(682 928)	2 828 486
	3 136 442	6 880 153
13.1 NET FAIR VALUE (LOSSES)/GAINS		
Net fair value gains on investments held at fair value through profit and loss		
-Net realised gains on disposal	1 853 917	47 576
-Net unrealised (losses)/gains on revaluation	(2 536 844)	2 780 909
	(682 927)	2 828 485
14. FINANCE COSTS		
Interest paid on Personal Medical Savings Account (note 5)	-	1 691 922
15. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES		
Reconciliation of net surplus for the year to cash flows utilised in operations before working capital changes		
Net (deficit)/surplus for the year	(3 120 794)	614 546
Adjustments for:		
- Net impairment losses	74 973	3 225
- Interest income	(3 444 056)	(1 465 152)
- Return on members' personal savings balance account monies	-	(2 301 231)
- Dividend income	(375 314)	(285 284)
- Net unrealised (losses)/gains on revaluation of investments held at fair value through profit and loss	2 536 844	(2 780 909)
- Asset management fees	390 493	408 956
- Interest paid on savings accounts	-	1 691 922
	(3 937 854)	(4 113 927)

16. FIDELITY COVER

The Scheme has aranged cover in its own name of R10 million through AIG Ltd.

17. RELATED PARTY TRANSACTIONS

The Scheme's administrator, Private Health Administrators (Pty) Ltd has significant influence over the Scheme since Private Health Administrators (Pty) Ltd participates in and influences the financial and operating policy decisions of the Scheme but does not control the Scheme. Private Health Administrators (Pty) Ltd received from the Scheme market-related fees for administration and managed care management services provided amounting to R4 952 933 (2017: R4 814 246). At 31 December 2018, no amounts were outstanding. An amount of R194 271 (2017 : R324 025) was reimbursed to the Administrator for a registered nurse based in Middelburg.

Alliance-Midmed is a closed scheme where members are employees of Columbus Stainless (Pty) Ltd and associated companies. The composition of the Board of Trustees includes employer appointed and employee elected trustees.

The participating employers' payroll system is primarily utilised in collecting both the member's and the employer's proportionate share of the contributions.

The Trustees are considered to be key management personnel since they have authority and responsibility for planning, directing and controlling the activities of the Scheme. Contributions of R356 858 (2017: R330 046) were received and claims of R207 297 (2017: R209 759) were paid in respect of the Trustees who are members of the Scheme. All contributions were at the same terms as applicable to third parties. All claims were paid in accordance with the Rules of the Scheme. Payments made with respect to Trustees are reflected under note 11.

The Principal Officer received remuneration of R392 384 to attend to the duties as the Principal Officer in 2018 (2017: R364 720). This is fully recovered from Columbus Stainless (Pty) Ltd, upon request from members of the Scheme.

At 31 December 2018, the Trustees had positive savings balances of R173 449 (2017: R120 248). In line with the terms applied to members, the balances earned interest which accrued to the member up until 30 September 2017. The amounts are all current and are payable on demand should an appropriate claim be issued, or the member exits the Scheme.

18. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Scheme's accounting policies, the following judgements have the most significant effect on the amounts recognised in the annual financial statements:

Outstanding claims provision

Details of assumptions and judgements used in determining the outstanding claims provision are outlined under Note 7.

There are no other key areas of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

19. MEDICAL INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating medical insurance risk

The primary insurance activity carried out by the Scheme assumes the risk of financial loss from members and their dependants that are directly subject to the risk. These risks relate to the cost of their health. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Scheme also has exposure to market risk through its insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, contracting with providers, service provider profiling, centralised management of risk transfer arrangements as well as the close monitoring of emerging health risk management issues.

The Scheme uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

The following table summarises the concentration of insurance risk on a beneficiary level, with reference to the net carrying amount of 2018 medical insurance claims paid in the 2018 financial year, by age group and in relation to the type of risk covered or benefits provided. Where appropriate prescribed minimum benefits (PMB) and non-PMB claims have been split.

19. MEDICAL INSURANCE RISK MANAGEMENT (Continued)

Risk management objectives and policies for mitigating medical insurance risk (continued)

		Hospital (major medical)		Chronic		Day to day	Total
		PMB	Non PMB	PMB	Non PMB		
2018		R	R	R	R	R	R
Age grouping (in years)							
< 26	-Gross	4 180 588	1 984 038	22 948	9 668	7 736 785	13 934 027
	-Net	4 206 640	1 949 047	23 122	9 742	6 789 010	12 977 561
26 - 35	-Gross	2 831 241	1 441 735	21 399	8 981	4 501 983	8 805 339
	-Net	2 849 839	1 438 396	21 562	9 049	3 960 559	8 279 405
36 - 50	-Gross	4 903 431	3 328 086	130 579	99 440	10 904 173	19 365 709
	-Net	4 906 540	3 292 111	131 217	100 197	9 764 999	18 195 064
51 - 65	-Gross	9 015 504	4 522 524	250 561	173 068	10 832 410	24 794 067
	-Net	9 056 194	4 488 713	253 274	174 385	10 045 407	24 017 973
> 65	-Gross	9 984 281	3 234 463	207 108	136 807	6 609 052	20 171 711
	-Net	10 032 139	3 218 839	208 422	137 848	6 291 692	19 888 941
Total	**-Gross**	30 915 045	14 510 847	632 595	427 963	40 584 404	87 070 853
	-Net	31 051 353	14 387 106	637 597	431 221	36 851 667	83 358 944

		Hospital (major medical)		Chronic		Day to day	Total
		PMB	Non PMB	PMB	Non PMB		
2017		R	R	R	R	R	R
Age grouping (in years)							
< 26	-Gross	4 579 246	2 546 289	28 482	7 491	7 930 197	15 091 706
	-Net	4 616 680	2 519 184	29 357	7 576	7 030 098	14 202 895
26 - 35	-Gross	2 437 798	810 689	20 850	12 523	4 546 286	7 828 147
	-Net	2 448 552	812 435	20 143	12 665	3 946 591	7 240 385
36 - 50	-Gross	5 780 301	2 405 125	123 734	99 248	11 317 430	19 725 838
	-Net	5 825 409	2 402 395	124 390	100 370	10 003 519	18 456 083
51 - 65	-Gross	8 326 650	3 680 097	199 548	182 525	10 021 377	22 410 196
	-Net	8 380 855	3 670 708	203 423	184 588	9 140 474	21 580 048
> 65	-Gross	7 600 735	3 536 177	131 224	141 582	5 914 625	17 324 343
	-Net	7 662 795	3 542 558	132 707	142 857	5 631 421	17 112 339
Total	**-Gross**	28 724 731	12 978 377	503 838	443 369	39 729 915	82 380 229
	-Net	28 934 292	12 947 280	510 020	448 056	35 752 102	78 591 750

Reconciliation of net claims to current year claims paid:

	2018	2017
	R	R
Total net claims as above	83 358 944	78 591 750
Road Accident Fund claim recoveries and claim adjustments	(189 148)	(7 038)
Claims paid via Dental Information Systems	4 061 256	3 344 403
Claims paid via Europ Assist	344 090	388 634
Claims paid from Personal Medical Savings Accounts	3 711 909	3 788 479
Current year claims paid (note 9)	91 287 050	86 106 229

Hospital (major medical) benefits cover costs incurred by members whilst they are in hospital receiving preauthorised and emergency treatment for certain medical conditions.

Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma.

Day-to-day benefits (which are paid from the major medical pool) cover the cost of out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

Contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract under certain conditions. Management information including contribution income and claims ratios, target market and demographic split, is reviewed monthly. There is also a review program that regularly reviews contractual premium and benefit data.

20. FINANCIAL RISK MANAGEMENT

Several activities expose the Scheme to a variety of financial risks, including changes in bond and equity market prices and interest rates. The Scheme's overall risk management programme focuses on the unpredictability of investment returns and seeks to minimise potentially adverse effects on the financial performance of the investments, which the Scheme holds. The Scheme's investment managers operate in terms of mandates which are approved by the Board of Trustees.

Financial risk factors

Currency risk

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand. The Scheme's direct exposure to currency risk is considered immaterial.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place.

Equities and bonds are reflected at market values, which are susceptible to fluctuations. The Scheme manages its market risk by employing the following procedures:

- mandating a specialist fund manager to invest in equities and bonds, where there is an active market and where access is gained to a broad spectrum of financial information relating to the institutions invested in;
- diversifying across a large pool of securities to reduce risk. Investments are according to prescription of the Medical Schemes Act; and
- considering the risk-reward profile of holding equities and bonds and bearing the risk in order to improve returns on assets.

Should the South African bond and equities move by 2%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on investment returns and accumulated funds of the Scheme would be as follows:

	Market value as a percentage of scheme assets		Impact	
	2018	2017	2018	2017
	%	%	R	R
Bonds	36.47%	16.55%	584 178	254 335
Equities including property unit trusts	23.97%	22.14%	449 266	313 171
Total change in accumulated funds			1 033 444	567 506

Interest Rate Risk

Interest rate risk is the exposure to movements in interest rates. The Scheme's exposure to interest rate risk is reduced by the fact that the Scheme holds no interest bearing debt.

The Scheme places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate placings within market expectations and determined mandates. The table below summarises the Scheme's exposure to interest rate risks in terms of the contractual maturity dates of the underlying investments. Included in the table are the Scheme's investments in interest bearing instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Over 5 years R	Total R
As at 31 December 2018						
Cash and cash equivalents	12 248 566	8 560 184	2 112 806	-	-	22 921 555
Total	12 248 566	8 560 184	2 112 806	-	-	22 921 556
As at 31 December 2017						
Cash and cash equivalents	18 609 851	8 535 618	16 966 070	-	-	44 111 539
Total	18 609 851	8 535 618	16 966 070	-	-	44 111 539

If interest rates changed by 2%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the net results of the Scheme is as follows:

	2018 R	2017 R
Change in investment income	582 317	948 300

20. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk

Credit risk is the risk of loss arising from the inability of a third party to service their debt obligations.

The Scheme's principal financial assets are cash and cash equivalents and trade and other receivables. The Scheme's credit risk is attributable primarily to its trade and other receivables. The amounts presented in the statement of financial position are net of allowances for impaired receivables. An allowance for impairment is made where there is an identified event which, based on previous experience is evidence of a reduction in the recoverability of the cash flows. Cash transactions are limited to high credit quality financial institutions. The Scheme has no significant concentration of credit risk, with exposure spread over a number of counterparties and members.

	2018 R	2017 R
Trade and other receivables		
Fully performing	1 063 643	772 559
Past due and impaired	107 420	37 560
	1 171 063	810 119
Provision for impairment of trade and other receivables	(107 420)	(37 560)
Trade and other receivables (note 2)	1 063 643	772 559

In order to mitigate this risk, there is a formal policy in place for the treatment of any debt that becomes past due.

A subset of credit risk is counterparty risk which is the risk that a counterparty is unable to meet its financial and or contractual obligations during the period of a transaction. The financial exposure has been addressed above. Contractual exposure exists with regards to managed care agreements, administration agreements and investment mandates. Each of these risk exposures is managed in the ordinary course of business. Where appropriate, contractual rights, service level agreements and performance management interventions are in place. It is also relevant to note that the counterparty risk is limited.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. By monitoring the availability of funding through liquid holding cash positions with various financial institutions, management ensures that the Scheme has the ability to fund its day-to-day operations. Liquidity is further managed by monitoring forecast cash flows and ensuring adequate liquid resources to meet its short term commitments.

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

The table below analyses the assets and liabilities of the Scheme into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date:

	Up to 1 month R	1 - 3 months R	3 - 12 months R	1 - 5 years R	Over 5 years R	Total R
As at 31 December 2018						
Current assets	73 613 439	8 577 376	2 112 806	-	-	84 303 621
Trade and other receivables	1 046 451	17 192	-	-	-	1 063 643
Cash and cash equivalents	12 248 566	8 560 184	2 112 806	-	-	22 921 556
Investments held at fair value	60 318 422	-	-	-	-	60 318 422
Current liabilities	36 933 017	1 082 478	383 097	-	-	38 398 592
Savings account liability	32 185 155	-	-	-	-	32 185 155
Trade and other payables	3 579 001	-	-	-	-	3 579 001
Outstanding claims provision	1 168 861	1 082 478	383 097	-	-	2 634 436
Net positive/(negative) liquidity	36 680 422	7 494 898	1 729 709	-	-	45 905 029
As at 31 December 2017						
Current assets	59 178 539	8 537 952	16 991 578	-	-	84 708 069
Trade and other receivables	744 717	2 334	25 508	-	-	772 559
Cash and cash equivalents	18 609 851	8 535 618	16 966 070	-	-	44 111 539
Investments held at fair value	39 823 971	-	-	-	-	39 823 971
Current liabilities	34 700 367	364 497	617 382	-	-	35 682 246
Savings account liability	31 324 906	-	-		-	31 324 906
Trade and other payables	2 350 889	-	-	-	-	2 350 889
Outstanding claims provision	1 024 572	364 497	617 382	-	-	2 006 451
Net positive/(negative) liquidity	24 478 172	8 173 455	16 374 196	-	-	49 025 823

Fair value estimation

The fair value of publicly traded financial instruments is based on quoted market prices at the reporting date.

	2018		2017	
	Carrying amount R	Fair Value R	Carrying amount R	Fair Value R
Cash and cash equivalents	22 921 556	22 921 556	44 111 539	44 111 539
Personal medical savings assets	-	-	-	-
Trade and other receivables	1 063 643	1 063 643	772 559	772 559
Investments held at fair value	60 318 422	60 318 422	39 823 971	39 823 971
Savings account liability	(32 185 155)	(32 185 155)	(31 324 906)	(31 324 906)
Trade and other payables	(3 579 001)	(3 579 001)	(2 350 889)	(2 350 889)

All financial assets are classified as level 2 (level 2 is unitised holdings and level 1 is direct equity holdings). Level 2 financial assets are financial assets whose fair value is determined by directly observable market inputs other than Level 1 inputs, these being reference to published price quotations in an active market for the underlying assets.

Breakdown of investments

The investments managed by the Scheme's investment manager are split between investments held at fair value through the profit and loss and cash and cash equivalents categories in the annual financial statements.

Investments held at fair value through profit and loss consist of the following:	2018 R	2017 R
Coronation Fund Managers Investment	-	17 743 780
Prudential Inflation Plus 5% Fund	21 903 482	22 080 191
Stanlib Income Fund	20 589 768	-
Allan Gray Medical Schemes Portfolio	17 825 172	-
Total	60 318 422	39 823 971

21. CAPITAL ADEQUACY RISK MANAGEMENT

The Scheme defines its capital as accumulated funds detailed in the statement of changes in funds and reserves. The Scheme manages its capital to ensure that it will be able to continue as a going concern as well as meet the solvency ratio of 25%, as regulated in the Act.

The Schemes' solvency at the end of 2018: 37.89% (2017: 40.14%).

The Scheme manages its funds by utilising the expertise of investment managers to maximise return on investments and maintain an acceptable level of risk. Investment managers are guided by mandates issued by the Board of Trustees. In addition, careful consideration is given to the impact on accumulated funds when preparing future year benefit options.

22. COMMITMENTS

There were no capital commitments as at 31 December 2018 (2017: nil).

23. CONTINGENT ASSETS

The Scheme has approximately R3.4m (2017: R3.4m) in recoveries outstanding from the Road Accident Fund (RAF) for claims paid on behalf of members. The likelihood of recovery of these amounts is not certain, and the Trustees have elected not to recognise a receivable on the statement of financial position as any future recoveries are highly contingent on multiple factors. The Trustees consider, based on past experience, that the receivable, were it to be recognised would be substantially impaired.

24. GUARANTEES

No guarantees either from or to third parties existed at 31 December 2018 (2017: nil).

25. SUBSEQUENT EVENTS

No events have occurred subsequent to the end of the reporting period that affect the annual financial statements and that the Board of Trustees believe should be brought to the attention of the members of the Scheme.

26. NON-COMPLIANCE WITH THE MEDICAL SCHEMES ACT

The Trustees are of the opinion that there are no material deviations from the Act.

Not all premiums are received within three days as required by the Act. There are sufficient credit control policies to minimise the risk of non-recoverability. This risk is further reduced by the fact that the Scheme is a restricted scheme with the majority of the members having a direct link to the employer pay point.

Claims are generally paid within 30 days of receipt but due to certain procedures such as clinical auditing, certain claims may be paid after 30 days of receipt.

Section 35(8) (c) of the Act states that a medical scheme shall not invest any of its assets in any administrator. The Scheme's investment funds are managed by independent third party asset managers. They have a discretionary mandate to achieve their target. Given this approach, the Scheme may be exposed to shares in an administrator from time to time. As a precuation the Scheme made application and was granted exemption from complying with this requirement by the Council for Medical Schemes. Our application was submitted on 11 April 2018 (2017: 15 March 2017) for which exemption was granted until 30 April 2019 (2017: 5 April 2018). On the S35(8)(c) non-compliance the scheme had investments in MMI (AG and Stanlib) and Liberty (Stanlib) at year-end which is what constitutes the non-compliance.

27. GOING CONCERN

The Council for Medical Schemes announced in 2017 that it intends to consolidate smaller schemes into bigger risk pools in order to align with the longer-term funding objectives of the National Health Insurance Scheme. This is, however, likely to face many challenges before it becomes reality and there is no indication that this will occur in the short to medium term. The Scheme is financially sound. These annual financial statements, available cash resources and forecasts support the viability of the Scheme as a going concern.